

Message Text

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ACTION SS-25

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C O N F I D E N T I A L SECTION 01 OF 02 CAIRO 12307

EXDIS

E.O. 11652: N/A
TAGS: EFIN, IBRD, IMF, EAID, EG
SUBJECT: IBRD CONSIDERING POSTPONEMENT OF CONSULTATIVE
- GROUP MEETING

REF: (A) CAIRO 11891 (B) STATE 111111

SUMMARY: IBRD OFFICIALS CALLED AT EMBASSY TO OUTLINE
IBRD'S RESERVATIONS CONCERNING HOLDING CONSULTATIVE GROUP
MEETING AS SCHEDULED IN JUNE. BANK SEES DISADVANTAGES
ON BOTH SIDES OF POSTPONEMENT ISSUE, BUT WILL NOT MAKE
FINAL DECISION FOR ABOUT ANOTHER WEEK. END SUMMARY.

1. MARTIN PAIJMANS AND KHALID IKRAM OF IBRD DISCUSSED
UPCOMING CONSULTATIVE GROUP MEETING IN EXTENDED CONVERSA-
TION WITH EMBASSY/USAID OFFICERS MAY 5. PAIJMANS OUTLINED
THREE MAJOR AREAS OF CONCERN IBRD HAS OVER CG MEETING:

- (A) GOE PREPARATION FOR CONSULTATIVE GROUP MEETING IS
FAR BEHIND SCHEDULE AND, WHILE GOE HAS DEVELOPED PROJECT
LISTS FOR SECTORS OF INTEREST, E.G., AGRICULTURE, INDUSTRY
AND TRANSPORTATION, EGYPTIANS HAVE DONE NOTHING ON GENERAL
PRESENTATION FOR CG ON STATE OF EGYPTIAN ECONOMY. IKRAM,
HOWEVER, IS NOW WORKING WITH KAISOUNI CABINET DIRECTOR
FOUAD HUSSEIN TO PUT GOE PRESENTATION IN DRAFT FORM
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BEFORE END OF NEXT WEEK.

- (B) BANK IN RECENT WEEKS HAS BECOME MORE CONCERNED
OVER DRIFT OF DOMESTIC POLITICS, I.E., PA DEBATES ON
RISING PRICES, RUMORED KAISOUNI RESIGNATION, STATUS
OF PRESENT GOE ECONOMIC GROUP. AS RESULT, IBRD HAD
CONCERNS BEFORE ARRIVAL THAT CHANGE IN CAST OF CHARACTERS

WAS IMMINENT AND LIKELY TO RESTRICT GOE'S EFFECTIVE PARTICIPATION AT PARIS MEETING.

- (C) FINAL AREA OF CONCERN REVOLVES AROUND AS YET UNNEGOTIATED IMF EXTENDED FUND FACILITY AND STATUS OF 1978 GODE REPLENISHMENT.

2. IBRD SEES ABOVE FACTORS AS POSSIBLE CONSTRAINTS TO PROFITABLE CG SESSION AND FEARS UNPRODUCTIVE CG MEETING COULD HAVE POTENTIAL DAMAGING EFFECT ON DONORS' ATTITUDE TOWARD FUTURE GOE ECONOMIC ASSISTANCE. ON OTHER HAND, POSTPONEMENT COULD INITIATE RUMORS OF SEVERE PROBLEMS IN EGYPTIAN ECONOMY AND POSSIBILITY OF CHANGE IN ECONOMIC POLICIES. AT END OF DISCUSSION WITH EMB/USAID REPS, IKRAM AND PAJMANS GENERALLY EXPRESSED VIEW THAT POST-PONEMENT MIGHT HAVE MORE NEGATIVE POTENTIAL THAN HOLDING MEETING AS PLANNED. AFTER EARLIER DISCUSSION WITH MINECON EL SAYEH, THEY ARE REASSURED AS TO LIKELIHOOD THAT GOE ECONOMIC LEADERSHIP WILL STAY IN OFFICE.

3. IBRD OFFICIALS SPECULATED THAT SUPREMELY IMPORTANT QUESTION OF GODE FUNDING MIGHT HAVE TO BE ADDRESSED AT CONSULTATIVE GROUP MEETING. POSITIVE ACTION THERE BY OTHER DONORS, INCLUDING IMF, IBRD AND USG CONCEIVABLY COULD BE USED TO EXTRACT FURTHER ARAB COMMITMENTS, AT LEAST IN PRINCIPLE. THEY NOTED FORCEFULLY, HOWEVER, CONFIDENTIAL

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THAT EGYPTIANS NEED TO DO MORE SOON AT HIGHER LEVELS IN TERMS OF SOLICITING FUNDS FROM GODE/ARAB STATES. PAJMANS INDICATED THAT GIVEN TIMING OF NEXT IMF MISSION, PLUS NORMAL REQUIREMENTS TO CIRCULATE AGENDA AND SUPPLEMENTARY DOCUMENTS FOR CONSULTATIVE GROUP MEETING, BANK WOULD HAVE TO MOVE QUICKLY ON DECISION TO RE-SCHEDULE OR HOLD MEETING AS PLANNED. HE THOUGHT AFTER DISCUSSION WITH PM SALEM THIS WEEKEND AND SUBSEQUENT SESSION WITH IBRD OFFICIALS IN WASHINGTON, BANK WOULD MAKE EFFORT TO REACH FINAL DECISION ON THIS QUESTION SOMETIME DURING WEEK OF MAY 7.

4. IKRAM PLANS TO STAY IN EGYPT FEW DAYS TO ASSIST GOE WITH ITS PRESENTATION (PAJMANS DEPARTING FOR GULF MAY 8). IBRD HAD NO DEFINITIVE INFO ON EXACT IMF NEGOTIATIONS SCHEDULE, BUT THOUGHT IT POSSIBLE IMF TEAM WILL ARRIVE END OF NEXT WEEK AND SHALAN WILL JOIN GROUP FOR FINAL TALKS WITH GOE ON MAY 18 OR 20. IKRAM POINTED OUT TIMING IS CRUCIAL. IF AGREEMENT REACHED WITH IMF, IT WOULD BE TACTICALLY ADVISABLE FOR GOE THEN TO SEND HIGH-LEVEL MINISTERIAL GROUP (PROBABLY KAISOUNI AND/OR SALEM) TO GULF TO PRESS GODE REPLENISHMENT QUESTION BEFORE CG MEETING.

5. COMMENT: WE CAN APPRECIATE IBRD'S FRUSTRATION AT EGYPTIAN SLOWNESS IN PREPARING REQUIRED DOCUMENTS AND ALSO BELIEVE REITERATION OF POSSIBLE NEED POSTPONE CONSULTATIVE GROUP MEETING, IF JUDICIOUSLY USED (I.E., NOT RPT NOT AS A THREAT), CAN BE OF SOME HELP IN GALVANIZING EGYPTIANS OUT OF THEIR INERTIA. AT SAME TIME, WE BELIEVE IT WOULD BE A GREAT MISTAKE IF IBRD MAKES DECISION IN EARLY MAY TO POSTPONE CG MEETING. EGYPTIANS HAVE EXPLAINED REASON FOR DELAY IN PREPARING DOCUMENTATION AND HAVE TOLD US THEY ARE NOW ENGAGED IN PREPARING IT (REF A). GRANTED, WORDS ARE CHEAP AND EGYPTIAN FEET MUST BE HELD TO THE FIRE ON THIS. IKRAM SHOULD BE ABLE TO DO SO IN HIS UPCOMING MEETINGS WITH FOUAD HUSSEIN. WE WILL
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C O N F I D E N T I A L SECTION 02 OF 02 CAIRO 12307

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DO UTMOST REINFORCE THAT EFFORT AT ALL APPROPRIATE LEVELS. HOPEFULLY, THROUGH OUR COMMON EFFORTS, GOE WILL PRODUCE NEEDED MATERIALS, ALTHOUGH QUALITY MAY LEAVE SOMETHING TO BE DESIRED, BUT LATTER IS A CONSTANT PROBLEM AND ONE IBRD, WE AND OTHER DONORS ARE LIKELY TO HAVE TO LIVE WITH. RE AGREEMENT WITH IMF, AS REPORTED REF A, SHALAAAN IS EXPECTED BACK MAY 20 AND WE BELIEVE CHANCES ARE REASONABLE THAT SOME KIND OF AN AGREEMENT WILL BE REACHED WITH GOE. BOTH HAVE TOO MUCH AT STAKE TO LET IT GO BY THE BOARDS.

6. IN THESE CIRCUMSTANCES, STRONGLY RECOMMEND DEPT/AID URGE IBRD NOT TO MAKE DECISION ON POSTPONEMENT IN FIRST WEEK OF MAY AS SUGGESTED ABOVE. THERE IS NO REASON WHY A POSTPONEMENT DECISION, IF ONE HAS TO BE MADE, COULD NOT BE DEFERRED UNTIL END OF MAY. IBRD SHOULD KNOW THAT IF IT DECIDES POSTPONE CONSULTATIVE GROUP MEETING, IT WILL HAVE DEALT KAISSOUNI AND ECONOMIC MINISTERS A SEVERE BLOW IN TERMS OF THEIR LOCAL STANDING, CREDIBILITY AND INFLUENCE. IN PROCESS, IBRD COULD VERY WELL BE UNDERMINING THAT VERY CONTINUITY OF EGYPTIAN ECONOMIC LEADERSHIP TO WHICH IT ATTACHES SUCH IMPORTANCE. ELTS

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